

Message Text

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FROM COMMERCIAL COUNSELOR

EO 11652 NA
TAGS BEXP BR
SUBJECT: US BUSINESS ACCESS TO LOCAL FINANCING

REF: STATE 200405

BEGIN UNCLASSIFIED

1. IN ACCORDANCE WITH ITS BASIC POLICY OF CREDIT RESTRAINT, THE GOB PLACED LIMITS AT THE BEGINNING OF 1977 ON THE FINANCIAL RESOURCES AVAILABLE TO FINAME, THE AGENCY OF THE NATIONAL DEVELOPMENT BANK WHICH PROVIDES FINANCING TO BRAZILIAN-OWNED FIRMS FOR THE PURCHASE OF CAPITAL GOODS. IN ORDER TO FACILITATE THE RATIONING OF THE REDUCED RESOURCES OF FINAME, THE GOB ALSO DECIDED THAT NO ADDITIONAL FOREIGN-OWNED FIRMS WOULD BE ADDED TO THE LIST OF ELIGIBLE SUPPLIERS. THIS DECISION WAS CONSISTENT WITH BRAZILIAN LAW WHICH AIMS AT RESERVING GOVERNMENT CREDIT FOR NATIONAL FIRMS. HOWEVER, FOREIGN-OWNED FIRMS HAD PREVIOUSLY BEEN REGISTERED WITH FINAME AND THOSE ALREADY REGISTERED CONTINUE TO BE ELIGIBLE TO SUPPLY GOODS UNDER FINANCING PROVIDED BY THAT AGENCY TO BRAZILIAN BUYERS. END UNCLASSIFIED

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2. REFERRING TO A RECENT CONTROVERSY RESULTING FROM THE DENIAL OF FINAME ELIGIBILITY TO THREE EUROPEAN FIRMS IN THE STATE OF MINAS GERAIS, MINISTER OF INDUSTRY AND COMMERCE ANGELO CALMON DE SA ACKNOWLEDGED CONFIDENTIALLY TO EMBASSY OFFICERS ON AUGUST 25 THAT THE CURRENT SITUATION MIGHT BE CONSIDERED UNFAIR AS REGARDS CERTAIN FOREIGN FIRMS (I.E., THOSE NOT ALREADY REGISTERED WITH FINAME) AND INCONSISTENT AS REGARDS BRAZIL'S BALANCE OF PAYMENTS

OBJECTIVE TO AVOID UNNECESSARY IMPORTS. CALMON DE SA EXPLAINED THAT IN THE PAST FOREIGN FIRMS WERE ELIGIBLE FOR FINAME FINANCING DESPITE THE GENERAL PROHIBITION OF GOVERNMENT CREDIT TO FOREIGNERS BECAUSE FINAME'S AMPLE RESOURCES PERMITTED A LIBERAL INTERPRETATION OF THE LAW; NAMELY, IF EITHER THE SELLER OR THE BUYER WERE BRAZILIAN, FINAME WOULD PROVIDE FINANCING. THE RECENT STEP TO REDUCE FOREIGN FIRMS' ACCESS TO FINAME IS UNSATISFACTORY, ACCORDING TO THE MINISTER, BECAUSE THERE IS NO LOGICAL REASON FOR DISCRIMINATING BETWEEN OLD AND NEW FOREIGN FIRMS. HE ALSO POINTED OUT THAT SUCH A PRACTICE CREATES A SITUATION IN WHICH BRAZILIAN FIRMS DESIRING TO PURCHASE EQUIPMENT PRODUCED IN BRAZIL EXCLUSIVELY BY A FOREIGN-OWNED FIRM NOT REGISTERED WITH FINAME WOULD BE DENIED FINANCING AND THUS BE GIVEN AN INCENTIVE TO PURCHASE THE EQUIPMENT ABROAD.

3. CALMON DE SA SAID THE GOB IS CONSIDERING CHANGING THE SYSTEM TO PERMIT ALL FOREIGN FIRMS TO REGISTER WITH FINAME AS IN THE PAST. HE PERSONALLY HAS PROPOSED DEALING WITH THE PROBLEM OF SCARCE RESOURCES BY REDUCING THE PROPORTION OF FINAME'S FINANCING IN EACH PROJECT AND BY GRANTING ALL FOREIGN FIRMS SOMEWHAT LESS COVERAGE IN NON-PRIORITY SECTORS THAN WOULD BE GRANTED TO BRAZILIAN-OWNED FIRMS. FOREIGN FIRMS, HOWEVER, WOULD CONTINUE TO RECEIVE EQUAL TREATMENT (I.E., MAXIMUM PERMITTED FINAME FINANCING) FOR PROJECTS IN GOB-DESIGNATED PRIORITY SECTORS.

4. EMBASSY COMMENT: THE CONSIDERATION BEING GIVEN TO CHANGING LIMITED OFFICIAL USE

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THE FINAME RULES WAS PROBABLY SPURRED BY THE PUBLICITY GIVEN TO THE ABOVE-MENTIONED CASE IN MINAS GERAIS. THE SECRETARY OF INDUSTRY AND COMMERCE OF MINAS GERAIS CRITICIZED THE CURRENT SITUATION AS HAMPERING THE INDUSTRIAL DEVELOPMENT OF HIS STATE, AS COMPARED WITH SUCH HEAVILY INDUSTRIALIZED STATES AS SAO PAULO. HIS REASONING IS THAT FOREIGN FIRMS IN SAO PAULO ARE ESTABLISHED AND ALREADY REGISTERED WITH FINAME WHILE THE FOREIGN FIRMS THAT MINAS GERAIS IS TRYING TO ATTRACT ARE NEW TO BRAZIL AND THUS NOT ELIGIBLE FOR FINAME FINANCING. THE CURRENT LIMITATIONS ON FINAME REGISTRATION OF NEW FOREIGN FIRMS REFLECTS A LOGICAL, IF SOMEWHAT NATIONALISTIC, RECOURSE TO EXISTING LAW IN ORDER TO HELP RATION SCARCE OFFICIAL CONCESSIONAL RESOURCES. WHILE CALMON DE SA'S PROPOSED MODIFICATION WOULD CREATE PREFERENTIAL FINAME FINANCING FOR BRAZILIAN FIRMS FOR PROJECTS IN NON-PRIORITY SECTORS, THEY WOULD REMOVE THE CURRENT DISCRIMINATION AMONG DIFFERENT FOREIGN FIRMS AND WOULD ASSURE FOREIGN FIRMS EQUAL TREATMENT IN THE PRIORITY AREAS TO WHICH THE BULK OF FINAME CREDIT IS DIRECTED. ALTHOUGH THE IMPACT OF THE OVERALL LIMITS ON FINAME WOULD BE SHIFTED IN PART FROM NEW FOREIGN FIRMS TO THOSE ALREADY REGISTERED WITH FINAME, AMERICAN CHAMBER OF COMMERCE LEADERS HAVE INDICATED TO COMMERCIAL COUNSELOR THAT THEY CONSIDER THE PROPOSED MEASURE A REASONABLE SOLUTION TO THE GOB'S PROBLEM. MOREOVER, BRAZILIAN FIRMS AS WELL

AS FOREIGN FIRMS WILL BE AFFECTED IF FINAME ACTUALLY REDUCES ITS
LEVEL OF FINANCING IN INDIVIDUAL PROJECTS IN AN ATTEMPT
TO STRETCH ITS RESOURCES AND CONTINUE TO PROVIDE AT LEAST SOME
SUPPORT TO A BROAD SPECTRUM OF BORROWERS.
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